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November 14, 2008

Submitted via email (to director@fasb.org) and ordinary mail

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Reference: File Reference No. 1620-100

United Technologies Corporation (UTC) welcomes the opportunity to share its views on the proposed statement "Amendments to FASB Interpretation No. 46(R)" (the ED). UTC is a \$60 billion global provider of high technology products and services to the building systems and aerospace industries, operating in 186 countries around the world.

We strongly support the Board's efforts to improve financial reporting by enterprises involved with variable interest entities (VIEs). While we generally agree with the amendments outlined in the ED and support the objectives to improve financial reporting to provide more relevant and reliable information to the users of financial statements, we believe the Board should reconsider certain aspects of the ED prior to its finalization. Our comments are outlined below for your consideration. We have also addressed the Board's specific questions in Appendix A of this letter.

From an overall perspective, we believe that the Board should consider deferring this ED until the FASB and the IASB issue a converged standard on consolidation principles, which is expected by mid 2011 at the latest. Issuing guidance now that is likely to change relatively soon will not only be costly for companies to comply with but also may confuse readers of financial statements.

Specifically, the following are the most significant issues we see with the ED as written:

1. Definition of a controlling financial interest - Determining those powers that most significantly impact a potential VIE's activities is very subjective and will be difficult to implement. We recommend more guidance or examples be

- provided to assist preparers with this critical provision as well as eliminate the quantitative step two analysis.
- 2. Ongoing assessment of VIE status and primary beneficiary We believe a more consistent and cost efficient approach would be to require companies to assess the status of an entity as being a variable interest model or voting interest model on an annual basis, or when a triggering event occurs as already set forth in paragraph 7 of the original standard, while re-assessing the status of the primary beneficiary on an ongoing basis.
- 3. Certain disclosure requirements As mentioned in our letter dated October 15, 2008 to respond to proposed FSP 140-e and FIN 46(R)-e, we believe the following disclosure issues should be addressed:
 - i. Define the term "sponsor."
 - ii. Eliminate the requirement to disclose whether different assumptions or judgment could have reasonably been made that would result in a different conclusion than was actually made. It seems awkward from a disclosure standpoint, as well as potentially confusing to readers.
 - iii. Eliminate disclosure of insignificant VIE relationships

We thank the Board for its consideration of our views and would be pleased to discuss these issues in more detail with the Board members or the FASB Staff at your convenience.

Sincerely,

Margaret M. Smyth Vice President, Controller

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1. Will the proposed Statement meet the project's objectives to improve financial reporting by enterprises involved with variable interest entities and to provide more relevant and reliable information to users of financial statements?

We believe that the objectives will be met if the Board amends the ED as discussed in our letter.

2. What costs do you expect to incur if the Board were to issue this proposed Statement in its current form as a final Statement? How could the Board further reduce the costs of applying these requirements without significantly reducing the benefits to users of financial statements?

The most significant costs associated with the implementation of the proposed ED center around sponsors and ongoing assessments - specifically the collection of data for disclosure purposes with regard to insignificant interests in entities whereby UTC would meet the definition of a "sponsor" and the on-going assessment of the status of an entity as a VIE.

The proposed amendment would require disclosures, and thus require data collection, for "a sponsor that holds a variable interest in a variable interest entity (irrespective of the significance of the variable interest)." We do not believe investors will benefit from disclosure of insignificant VIE relationships. The ED is not required for immaterial items, and therefore by definition, an insignificant interest would be immaterial. Furthermore, as noted below, we believe the Board should provide a definition of "sponsor."

An additional area of cost centers on the ongoing assessment of an entity's status as a VIE. This would require the gathering of data that could prove to be costly on a continuous basis. We feel the ongoing assessment of an entity's VIE status does not address the underlying concern and the salient point of the ED, which is the determination of the primary beneficiary, as discussed below.

3. The Board decided to adopt a more principles-based approach to determine the primary beneficiary of a variable interest entity. Do you believe the principles in paragraphs 14–14B of Interpretation 46(R), as amended by this proposed Statement, are sufficiently clear and operational?

We support the Board's move to a more principles-based approach to determine the primary beneficiary of a VIE through qualitative assessment. However, we believe the principles set forth in the ED need further clarification. As discussed in our letter, however, UTC feels the definition of a controlling financial interest in paragraph 14A of the ED is too broad and will result in implementation inconsistencies amongst companies.

The ED calls for consolidation of entities which a company has both the power to direct matters that most significantly impact the activities of an entity, and the right to receive benefits from, or the obligation to absorb losses of, the entity. Determining what powers or abilities significantly impact an entity's activities is very subjective and will be difficult to implement in practice. For example, in certain of our VIE structures, UTC may have a variable interest in an entity through a long-term supply arrangement whereby we have the ability to limit the output of the VIE to ensure the VIE has sufficient capacity for our requirements. We however, do not have the ability to unilaterally require the entity to sell assets. One could argue that the ability to require an entity to sell assets is one of the most powerful abilities to possess. In this case, does UTC have a controlling financial interest per paragraph 14A if we control the use of an asset by an entity but cannot force its sale? We believe that in this specific situation, arguments can be made both supporting and refuting having a controlling financial interest. This is only one of many grey interpretation areas we believe are created by the ED and therefore recommend that the Board clarify the critical decisions that should be considered in such an assessment.

We also believe that the qualitative assessment characteristics of a controlling financial interest are very broad and will lead to more entities being consolidated than under the current FIN 46(R). If this is the Board's intention, then this is fine. Otherwise, the Board may reconsider further focusing its implementation guidance.

Further, we do not understand the Board's rationale in paragraph B26 of the ED. This calls for the exclusion of the existence of kick-out rights from the qualitative assessment in determining if a VIE relationship exists, unless an entity has the unilateral ability to exercise such kick-out rights." The ED states this is even though "excluding such kick-out rights is in conflict with other authoritative guidance." This treatment of kick-out rights appears to be counter to the issuance of a principles-based standard, particularly when kick-out rights must clear the "substantive" hurdle as set forth under paragraph B20 in FIN 46(R). We believe considering substantive kick-out rights with such a narrow view is not only counter-intuitive to a principles-based standard but could also have unintended consequences.

4. The Board concluded that it would be helpful to provide examples of the application of the principles in this proposed Statement. Do you believe that the examples in Appendix A clearly indicate how the principles in paragraphs 14–14B of Interpretation 46(R), as amended by this proposed Statement, would be applied? If not, please articulate what additional information or guidance is necessary, considering the basis for the Board's conclusions.

We generally agree the examples given in the included appendix are helpful to clarify the application of the ED for paragraphs 14 - 14B. As previously noted, however, we encourage the Board to define the term "sponsor" as interpretation differences could lead to reporting and disclosure differences amongst entities with similar fact

patterns. If the Board decides not to include a definition of "sponsor" in the ED, then UTC suggests the Board update the ED to include a list of qualitative and quantitative factors that should be considered in deciding whether a company is a "sponsor" of a VIE.

Additionally, if the FASB intends to keep the requirement to proceed to a second step in determining the primary beneficiary as outlined in paragraph 14C of the ED, we suggest the Board include examples illustrating the need to perform a step two quantitative analysis.

5. This proposed Statement retains the quantitative analysis for situations in which an enterprise cannot determine whether it is the primary beneficiary through the qualitative analysis in paragraph 14A of Interpretation 46(R), as amended by this proposed Statement. In Appendix A, each example either identifies a primary beneficiary or concludes that no primary beneficiary exists through a qualitative analysis. The Board may consider removing the quantitative analysis for determining whether an enterprise is the primary beneficiary of a variable interest entity. Do you believe that the quantitative analysis is necessary based on the proposed amended guidance for determining the primary beneficiary? Do you believe that the quantitative analysis would be performed in many situations? Why or why not?

Maintaining a quantitative approach as a default step to determine the primary beneficiary seems contradictory with the Board's stated objective of this ED – that being to adopt a more principles-based approach to determining the primary beneficiary of a VIE. Furthermore the Board notes in paragraph B21 the quantitative analysis would be "uncommon" and gives no examples in Appendix A where this criteria would be met or implemented. Given the nature of the qualitative measures that must be taken into account as part of the analysis to determine a primary beneficiary, we do not believe the quantitative analysis put forth in step 2 would be necessary and thus recommend eliminating it. However, if the Board decides to maintain the quantitative step, it should provide examples to illustrate when this instance may occur.

6. For the reasons stated in paragraphs B6-B15 of this proposed Statement, the Board decided to require ongoing assessments to determine whether an entity is a variable interest entity and whether an enterprise is the primary beneficiary of a variable interest entity. Do you agree with the Board's decision to require ongoing assessments? If not, please provide reasons (conceptual or otherwise) as to why you disagree with these requirements considering all of the proposed amendments in this proposed Statement.

We believe the ongoing assessment of both the status of an entity as a VIE and the primary beneficiary of a VIE appears redundant and costly to comply with. First, the Board has stated in paragraph B12 of the proposed statement, "often, the same

enterprise would consolidate the entity under a voting interest model or a variable interest model because the enterprise would have the majority of voting and power along with (a) the right to benefits that could be significant or (b) obligation to absorb losses that could be significant." Second, continuously reassessing the status of a VIE will be extremely burdensome from an administrative perspective. For example, IT systems will have to be upgraded to gather the requisite data on an ongoing basis from all potential VIEs.

The primary purpose of the ED is to provide a principles-based approach for determining the primary beneficiary of a variable interest entity. The reconsideration approaches originally provided for in paragraph 7 of FIN 46(R) are supportive of a principles-based way to determine if an entity's status as a VIE has changed from period to period.

Therefore we believe a reasonable approach would be to perform a re-assessment of the status of an entity as being a variable interest model or voting interest model on an annual basis or when a triggering event were to occur as already set forth in paragraph 7 of the original standard, while re-assessing the status of the primary beneficiary on an ongoing basis. This approach addresses the salient point of the ED while making the implementation of the ED more cost effective and easier to comply with for all enterprises.

7. Do you believe that any exceptions to this proposed Statement should be made for private or not-for-profit entities? If so, please articulate the conceptual basis and reasons for the exceptions.

We believe there should be no exceptions made for private or not-for-profit entities.

8. Financial statement users indicated that the information disclosed in accordance with Interpretation 46(R) about an enterprise's involvement or involvements with variable interest entities and the associated risks are often insufficient and untimely. Do you believe the disclosure requirements in this proposed Statement address those concerns?

As stated in our comment letter on the proposed FSP 140-e and FIN 46(R)-e, we understand and appreciate the FASB's position of the need for additional disclosures around VIEs and the risk those types of structures may present. We are concerned, however, some of the disclosures the FASB is suggesting for VIEs do not meet the objectives the FASB intended.

As previously discussed, we recommend the Board define the term "sponsor," as we are concerned that varying degrees of interpretation could potentially cause significant differences in reporting, especially for immaterial interests.

We do not believe disclosing the "enterprise's maximum exposure to loss as a result of its involvement with the variable interest entity," "irrespective of the significance

of the variable interest," is useful information to investors. We believe it would be better to qualitatively discuss the future risks involved with the relationship, focusing on those entities that are significant rather than "sponsorship" in nature.

Finally, paragraph 22C (a) of the ED requires an enterprise disclose its methodology for determining whether the enterprise is (or is not) the primary beneficiary of a variable interest entity, including significant factors and assumptions considered, and whether different assumptions or judgment could have reasonably been made that would result in a different conclusion. An enterprise's methodology for determining whether the enterprise is (or is not) the primary beneficiary will vary depending on the nature of the VIE. Each VIE presents a different set of risks and requires different perspectives for determining the primary beneficiary. This poses a problem for issuers of financial statements to understand what level of detail this disclosure requirement is meant to capture. Additionally, perhaps more importantly, the requirement to disclose whether different assumptions or judgment could have reasonably been made that would result in a different conclusion than was actually made seems awkward from a disclosure standpoint. It is unclear how this helps financial statement users understand the judgment and assumptions made (to align to the objective this disclosure is meant to address). If the Company has decided, based on current facts and circumstances, that the VIE should be consolidated, hypothetical scenarios, assumptions and judgments may confuse the reader as to whether or not the variable interest entity should or should not be consolidated. We believe the reader of the financial statements is better served by understanding the true risks involved with the VIE relationship and the true facts and circumstances resulting in consolidation of the interest, not hypothetical scenarios. However, if the FASB decides to maintain this disclosure requirement, we recommend it be required for only the most material actual or potential VIEs. Otherwise, the disclosures would not only be costly to compile but also could be so lengthy as to potentially cause them to lose their value for the reader.

9. Should the elements of a consolidated variable interest entity be required or permitted to be classified separately from other elements in an enterprise's financial statements?

As stated in our comment letter on the proposed FSP 140-e and FIN 46(R)-e, the ED requires many disclosures for VIEs which relate to risks and restrictions the entity that participates in the VIE undertakes. Examples of these requirements are: (1) carrying amount of assets and liabilities of consolidated VIEs and any restrictions on use of the assets of the VIE; (2) terms of arrangements that could require the enterprise to provide financial support to the VIE, including events or circumstances that could expose the enterprise to a loss, and; (3) the fair value of the consolidated VIE's financial assets and liabilities that are consolidated pursuant to FIN 46(R).

We are concerned the level of disclosure required for consolidated VIEs is different than the level of disclosure required for subsidiaries that are consolidated and not wholly owned. We do not understand why the Board is differentiating VIEs from other entities. We understand there are circumstances where VIEs may present more risks to an entity, but we believe this is why the FIN 46(R) model requires companies to assess these risks in the determination of the primary beneficiary. If the consolidated assets and liabilities of a VIE are significant to the consolidated entity, disclosures would be required under other accounting standards that would meet the objectives set forth by the Board.

We believe the above disclosures are already required by existing U.S generally accepted accounting principles (GAAP), such as SOP 94-6 "Disclosure of Certain Significant Risks and Uncertainties." UTC already discloses the risks we deem significant in accordance with the requirements of other U.S. GAAP. We believe the further disclosure of risks may actually confuse readers and diminish the value of such disclosures.

We do not understand the need to specifically disclose the fair value of financial assets and liabilities of consolidated VIE's as proposed by the ED. We also do not understand the benefit provided to the reader of the financial statements of treating a VIE's financial assets and liabilities differently than those of a consolidated subsidiary. Other consolidated entities are not specifically discussed in the financial statements with regard to the fair value of financial assets and liabilities. Furthermore, the fair value of assets and liabilities held are already being disclosed in accordance with FAS 157.